

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Montcalm County Housing Commission</b>	County <b>Montcalm</b>
Audit Date <b>12/31/04</b>	Opinion Date <b>8/11/05</b>	Date Accountant Report Submitted to State: <b>9/14/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

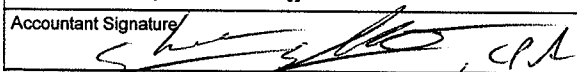
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).	✓		
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) <b>Anderson, Tackman &amp; Company, PLC</b>			
Street Address <b>Po Box 828, 201 E. Hughitt</b>		City <b>Iron Mountain</b>	State <b>MI</b>
Accountant Signature 		ZIP <b>49801</b>	Date <b>9-14-05</b>

**MONTCALM COUNTY HOUSING COMMISSION**

**REPORT ON FINANCIAL STATEMENTS**

(with supplemental information)

For the Year Ended December 31, 2004

**MONTCALM COUNTY HOUSING COMMISSION**

**TABLE OF CONTENTS**

	<u>Page</u>
Independent Auditors' Report .....	3-4
Management Discussion and Analysis .....	5-8
Financial Statements:	
Statement of Net Assets .....	9
Statement of Activities .....	10
Statement of Revenues, Expenses, and Change in Net Assets .....	11
Statement of Cash Flows .....	12
Notes to the Financial Statements .....	13-20
Supplemental Information:	
Financial Data Schedule.....	22-29
Federal Audit Reports .....	30





**ANDERSON, TACKMAN & COMPANY, P.L.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

*A Regional Firm with Offices in Michigan and Wisconsin*

Principals - Iron Mountain:  
L. Robert Schaut, CPA  
David J. Johnson, CPA  
Shane M. Ellison, CPA

Member of:  
Private Companies Practice Section  
American Institute of Certified  
Public Accountants

**INDEPENDENT AUDITORS' REPORT**

Board of Commissioners  
Montcalm County Housing Commission  
Howard City, Michigan

We have audited the accompanying basic financial statements of the business-type activities of the Montcalm County Housing Commission as of and for the year ended December 31, 2004 as listed in the table of contents. These basic financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Auditing Standards", issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Montcalm County Housing Commission as of December 31, 2004, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with "Government Auditing Standards", we have also issued our report dated August 11, 2005 on our consideration of the Montcalm County Housing Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters.. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with "Government Auditing Standards" and should be considered in assessing the results of our audit.

As described in Note A to the financial statements, the Commission adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Financial Statements-and Management's Discussion and Analysis-For State and Local Governments* and Governmental Accounting Standards Board Statement No. 37, an amendment of Statement No. 34. This results in a change in the format and content of the financial statements.

The Management's Discussion and Analysis on pages 5 through 8 is not a required part of the financial statements but is required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Montcalm County Housing Commission's basic financial statements. The Financial Data Schedule is presented for the purpose of additional analysis as required by the U.S. Department of Urban Housing and Development and is not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations", and is also not a required part of the basic financial statements of Montcalm County Housing Commission. The Financial Data Schedule and the Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



ANDERSON, TACKMAN & COMPANY, PLC  
Certified Public Accountants  
Iron Mountain, Michigan

August 11, 2005

## MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the Montcalm County Housing Commission's financial performance provides an overview of the financial activities for the year ended December 31, 2004. Please read it in conjunction with the Commission's financial statements, which begin on page 9.

### FINANCIAL HIGHLIGHTS

- The Commission's net assets were reported for the first time under GASB 34. As such, no comparisons with prior years will be made. In future years, comparative information will be presented in various schedules throughout the MD&A. Net assets for the entire Commission were reported at \$1,161,642.
- During the year, the Commission's operating revenues totaled \$1,273,010, or 100% of total revenues, while operating expenses totaled \$1,410,320 or 100% of total expenses.

### USING THIS REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets, Statement of Activities and the Statement of Revenues, Expenses and Change in Net Assets (on pages 9 to 11) provide information about the activities of the Commission as a whole and present a longer-term view of the Commission's finances.

### REPORTING THE COMMISSION AS A WHOLE

Our analysis of the Commission as a whole begins on page 9. One of the most important questions asked about the Commission's finances is "Is the Commission, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Assets, Statement of Activities and the Statement of Revenues, Expenses, and Change in Net Assets report information about the Commission as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Commission's *net assets* and changes in them. You can think of the Commission's net assets – the difference between assets and liabilities – as one way to measure the Commission's financial health, or *financial position*. Over time, *increases or decreases* in the Commission's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the population of low income and elderly individuals.

In the Statement of Net Assets, Statement of Activities and the Statement of Revenues, Expenses, and Change in Net Assets, the Commission's activities are reported as business-type activities:

- Business-type activities – The Commission charges rent to tenants to help it cover all or most of the costs of services it provides.

## REPORTING THE COMMISSION'S MOST SIGNIFICANT FUNDS

Our analysis of the Commission's major activities begins on page 9. The financial statements provide detailed information on all of the Commission's activities. The Commission uses proprietary funds to account for its activities. The method of accounting for proprietary funds is explained below.

- *Proprietary funds* – The Commission charges tenants rent for the housing services it provides and these services are reported in a proprietary fund. Proprietary funds are reported in the same way for its activities and are reported in the Statement of Net Assets and the Statement of Revenues, Expenses, and Change in Net Assets.

## THE COMMISSION AS A WHOLE

The Commission's combined net assets at December 31, 2004 decreased \$(137,331) from December 31, 2003.

**Table 1**

### NET ASSETS

Assets	
Current assets	\$ 87,049
Capital assets (net)	<u>1,157,629</u>
Total assets	<u>1,244,678</u>
Liabilities	
Current liabilities	79,644
Non-current liabilities	<u>3,392</u>
Total liabilities	<u>83,036</u>
Net Assets	
Invested in capital assets, net of related debt	1,153,997
Unrestricted	<u>7,645</u>
Net Assets	\$ <u>1,161,642</u>

Net assets of the Commission stood at \$1,161,642. Unrestricted net business assets were \$7,645. In general, the Commission's unrestricted net assets are used to fund operations of the Commission.

**Table 2**

**CHANGE IN NET ASSETS**

**Revenues:**

Program revenues:

Charges for services \$ 58,498

Program grants & subsidies 1,212,726

General revenues:

Other income 1,786

Unrestricted investment earnings 361

Total revenues 1,273,371

**Program Expenses:**

Operating expenses 1,410,320

Interest expense 382

Total expenses 1,410,702

Change in net assets (137,331)

**Net assets – beginning  
of period**

1,298,973

**Net assets – end  
of period**

\$1,161,642

**BUSINESS-TYPE ACTIVITIES**

Revenues for the Commission totaled \$1,273,371. The Commission's average unit months leased on a monthly basis had decreased during the current year. In addition, HUD operating funds and capital funding grants had decreased during the current year. The Commission depends on HUD operating and capital grants to assist in covering its operating expenses.



## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At the end of fiscal 2004, the Commission had \$2,274,784 invested in a variety of capital assets including land, equipment and buildings as follows:

**Table 3**

#### **CAPITAL ASSETS AT DECEMBER 31, 2004 Business – Type Activity**

Land and improvements	\$ 256,882
Buildings and improvements	1,827,972
Equipment	<u>189,930</u>
Total cost	2,274,784
Less accumulated depreciation	<u>(1,117,155)</u>
NET CAPITAL ASSETS	<u>\$1,157,629</u>

The Commission invested \$23,473 in capital assets during the year ended December 31, 2004.

### **NOTES PAYABLE**

During the year the Commission incurred debt of \$5,519 and repaid notes payable in the amount of \$1,887, representing all long term liability payments due from the Commission during the year

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The Commission's appointed officials considered many factors when setting the budget for the fiscal year 2004/2005. The current availability of low income and elderly tenants has been a major contributing factor in establishing the budgeted amounts. In the upcoming year, we do not anticipate any significant change in the occupancy rate and availability of new tenants that will provide any substantial increase in revenues. There continues to be a variety of inflationary cost and expense issues out of the control of the Commission. All of these were taken into consideration during the 2004/2005 budget process.

### **CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the readers with a general overview of the Commission's finances and to show the Commission's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Commission's Executive Director, Wendi Palmer, at PO Box 249, Howard City, Michigan 49329, or call 231-937-4241.

**MONTCALM COUNTY HOUSING COMMISSION**

**STATEMENT OF NET ASSETS**  
**Proprietary Fund**

December 31, 2004

**CURRENT ASSETS:**

Cash and equivalents	\$ 78,935
Accounts receivable	3,339
Prepaid expenses	<u>4,775</u>

<b>TOTAL CURRENT ASSETS</b>	<b><u>87,049</u></b>
-----------------------------	----------------------

**NONCURRENT ASSETS:**

Capital assets	2,274,784
Less accumulated depreciation	<u>(1,117,155)</u>

<b>NET CAPITAL ASSETS</b>	<b><u>1,157,629</u></b>
---------------------------	-------------------------

<b>TOTAL ASSETS</b>	<b><u>\$ 1,244,678</u></b>
---------------------	----------------------------

**CURRENT LIABILITIES:**

Accounts payable	\$ 8,313
Accrued liabilities	69,489
Notes payable	<u>1,842</u>

<b>TOTAL CURRENT LIABILITIES</b>	<b><u>79,644</u></b>
----------------------------------	----------------------

**NONCURRENT LIABILITIES:**

Compensated absences	1,602
Notes payable	<u>1,790</u>

<b>TOTAL NONCURRENT LIABILITIES</b>	<b><u>3,392</u></b>
-------------------------------------	---------------------

<b>TOTAL LIABILITIES</b>	<b><u>83,036</u></b>
--------------------------	----------------------

**NET ASSETS:**

Investment in capital assets, net of related debt	1,153,997
Unrestricted net assets	<u>7,645</u>

<b>NET ASSETS</b>	<b><u>\$ 1,161,642</u></b>
-------------------	----------------------------

ANDERSON, TACKMAN  
& COMPANY, P.L.C.  
CERTIFIED PUBLIC ACCOUNTANTS



The accompanying notes to financial statements are an integral part of this statement.



ANDERSON, TACKMAN  
& COMPANY, P.L.C.  
CERTIFIED PUBLIC ACCOUNTANTS

**MONTCALM COUNTY HOUSING COMMISSION**

**STATEMENT OF ACTIVITIES**

For the Year Ended December 31, 2004

<u>FUNCTIONS/PROGRAMS</u>	<u>Program Revenue</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
	<u>Expenses</u>	<u>Fees, Fines and Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>BUSINESS-TYPE ACTIVITIES:</b>				
Public Housing	\$ 1,410,702	\$ 58,498	\$ 1,212,726	\$ (139,478)
General revenues:				
Unrestricted investment earnings				361
Other				1,786
Total general revenues				2,147
Change in net assets				(137,331)
NET ASSETS, beginning of year				1,298,973
NET ASSETS, end of year				\$ 1,161,642

The accompanying notes to the financial statements are an integral part of this statement.

**MONTCALM COUNTY HOUSING COMMISSION**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGE  
IN NET ASSETS  
Proprietary Fund**

For the Year Ended December 31, 2004

OPERATING REVENUES:

Tenant revenue	\$ 58,498
Program grants-subsidies	1,212,726
Other income	<u>1,786</u>

TOTAL OPERATING REVENUES	<u>1,273,010</u>
--------------------------	------------------

OPERATING EXPENSES:

Administration	232,133
Tenant services	927
Utilities	14,953
Maintenance	108,756
General	21,402
Housing assistance payments	947,429
Other operating expenses	3,090
Depreciation	<u>81,630</u>

TOTAL OPERATING EXPENSES	<u>1,410,320</u>
--------------------------	------------------

OPERATING (LOSS)	<u>(137,310)</u>
------------------	------------------

OTHER INCOME (EXPENSES):

Interest income	361
Interest expense	<u>(382)</u>

TOTAL OTHER INCOME (EXPENSES)	<u>(21)</u>
-------------------------------	-------------

CHANGE IN NET ASSETS	(137,331)
----------------------	-----------

NET ASSETS, BEGINNING OF YEAR	<u>1,298,973</u>
-------------------------------	------------------

NET ASSETS, END OF YEAR	<u>\$ 1,161,642</u>
-------------------------	---------------------

ANDERSON, TACKMAN  
& COMPANY, P.L.C.  
CERTIFIED PUBLIC ACCOUNTANTS



The accompanying notes to financial statements are an integral part of this statement.



# MONTCALM COUNTY HOUSING COMMISSION

## STATEMENT OF CASH FLOWS

### Proprietary Fund

For the Year Ended December 31, 2004

#### OPERATING ACTIVITIES:

Cash received from customers	\$ 59,085
Cash received from grants and subsidies	1,279,412
Cash payments to suppliers for goods and services	(1,096,757)
Cash payments for wages and related benefits	(200,214)
Cash payments for payment in lieu of taxes	(4,511)
Other receipts	1,075

NET CASH PROVIDED FROM OPERATING ACTIVITIES	<u>38,090</u>
---	---------------

#### CAPITAL AND RELATED FINANCING ACTIVITIES:

Acquisition of capital assets	(23,473)
Proceeds from new debt	5,519
Payment of debt principal	(1,887)
Payment of debt interest	<u>(382)</u>

NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(20,223)</u>
--	-----------------

#### INVESTING ACTIVITIES:

Investment income	<u>361</u>
-------------------	------------

NET CASH PROVIDED FROM INVESTING ACTIVITIES	<u>361</u>
---	------------

NET INCREASE IN CASH AND EQUIVALENTS	18,228
--------------------------------------	--------

CASH AND EQUIVALENTS, BEGINNING OF YEAR	<u>60,707</u>
---	---------------

CASH AND EQUIVALENTS, END OF YEAR	<u>\$ 78,935</u>
-----------------------------------	------------------

#### RECONCILIATION OF OPERATING INCOME TO NET

##### CASH PROVIDED BY OPERATING ACTIVITIES:

Operating income (loss)	\$ (137,310)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	81,630
Changes in assets and liabilities:	
Decrease (Increase) in receivables	66,562
Decrease (Increase) in prepaid expenses	23
Increase (Decrease) in accounts payable	(17,466)
Increase (Decrease) in accrued liabilities	<u>44,651</u>

NET CASH PROVED FROM OPERATING ACTIVITIES	<u>\$ 38,090</u>
---	------------------

The accompanying notes to financial statements are an integral part of this statement.

## MONTCALM COUNTY HOUSING COMMISSION

### **NOTES TO FINANCIAL STATEMENTS**

December 31, 2004

#### **NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **THE REPORTING ENTITY**

The Montcalm County Housing Commission (Commission) was formed by the Montcalm County City Commission under Public Act 18 of 1933 of the State of Michigan. The Commission operates under a Board of Commissioners appointed by the County Manager.

The Commission, for financial reporting purposes, includes all of the activities relevant to its operations.

##### **Component Unit**

In evaluating how to define the Commission, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP, currently GASB Statement #14, "*The Financial Reporting Entity*".

The criteria established by the governmental Accounting Standards Board for determining the various governmental organizations to be include in the reporting entity's financial statements include budget adoption, taxing authority, funding, appointment of the respective governing board, and scope of public service.

Based on the foregoing criteria, it was determined that there are no component units of the Montcalm County Housing Commission but the Montcalm County Housing Commission is a component unit of Montcalm County, Michigan.

The accounting policies of the Commission conform to accounting principles generally accepted in the United States of America. The following is a summary of such significant policies.

##### **BASIS OF PRESENTATION**

During the year the Commission adopted Governmental Accounting Standards Board (GASB) Statement No. 34, which substantially revised the financial statement presentation as described below.

##### **Government-Wide Financial Statements:**

The Statement of Net Assets, Statement of Activities and Statement of Revenues, Expenses and Change in Net Assets display information about the Commission as a whole. They include all business-type activities of the Commission. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.



**MONTCALM COUNTY HOUSING COMMISSION**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2004

(Continued)

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**BASIS OF PRESENTATION (Continued)**

Proprietary Fund

Proprietary Funds are used to account for operations (a) which are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus:

The government-wide Statement of Net Assets, Statement of Activities and the Statement of Revenues, Expenses and Change in Net Assets are presented using the economic resource measurement focus as defined below.

- a. The Commission utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets, financial position and cash flows. All assets and liabilities, whether current or noncurrent, associated with their activities are reported.

Basis of Accounting:

The Statement of Net Assets, Statement of Activities and Statement of Revenues, Expenses and Change in Net Assets are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

As allowed by GASB Statement No. 20, the Commission's business-type activity follows all GASB pronouncements and FASB Statements and Interpretations that were issued on or after November 30, 1989, except those that conflict with a GASB pronouncement.



## MONTCALM COUNTY HOUSING COMMISSION

### **NOTES TO FINANCIAL STATEMENTS**

December 31, 2004

(Continued)

#### **NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **ASSETS, LIABILITIES AND NET ASSETS**

- a. Cash and Equivalents – The Commission's cash and cash equivalents as reported in the Statement of Cash Flows and the Statement of Net Assets are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less.
- b. Receivables – All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.
- c. Due to and Due From Other Programs – Interprogram receivables and payables arise from interprogram transactions and are recorded by all funds affected in the period in which transactions are executed.
- d. Capital Assets – Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and improvements	10-40 years
Furniture and other equipment	5-10 years

The Commission has adopted a capitalization policy for capital assets of \$500 per item.

- e. Compensated Absences - It is the Commission's policy to permit employees to accumulate a limited amount of earned but unused sick leave and vacation days, which will be paid to employees upon separation from the Commission. The cost of vested sick leave and vacation days are recognized as an expense as earned by the employees.
- f. Equity Classification

Equity is classified as net assets and displayed in two components:

1. Invested in capital assets – Consists of capital assets, net of accumulated depreciation
2. Unrestricted net assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."





## MONTCALM COUNTY HOUSING COMMISSION

### **NOTES TO FINANCIAL STATEMENTS**

December 31, 2004

(Continued)

#### **NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **REVENUES AND EXPENSES**

Operating revenues and expenses are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing or investing activities. Expenses are classified by operating and nonoperating and are subclassified by function such as salaries, supplies and contracted services.

##### **OTHER SIGNIFICANT ACCOUNTING POLICIES**

###### **Interprogram Activity:**

As a general rule, the effect of activity between programs has been eliminated from the government-wide statements.

The transfers of cash between the various Authority programs are reported separately from revenues and expenses as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing program.

Interprogram receivables and payables are eliminated from the Statement of Net Assets.

###### **Budgets and Budgetary Accounting:**

Budgets are adopted on a basis prescribed or permitted by the Department of Housing and Urban Development. All annual appropriations lapse at fiscal year end. The Commission follows these procedures in establishing the budgetary date reflected in the financial statements:

1. The Director submits to the Board a proposed operating budget for the fiscal year commencing on January 1<sup>st</sup>. The operating budget includes proposed expenses and the means of financing them. Prior to December 31<sup>st</sup>, the budget is legally adopted by Board resolution.
2. Formal budgetary integration is employed as a management control device during the year.
3. The budget has been amended. Supplemental appropriations were made during the year with the last one approved prior to December 31<sup>st</sup>.



**MONTCALM COUNTY HOUSING COMMISSION**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2004

(Continued)

**NOTE B - CASH**

The Commission maintains segregated cash and investment accounts which are specific to the activity to which they are available.

**CASH AND EQUIVALENTS**

Cash and equivalents consisted of:

Petty cash	\$ 150
Cash in checkings	51,385
Savings account	<u>27,400</u>
<b>TOTAL</b>	<b>\$ <u>78,935</u></b>

The Commission's cash and equivalents were fully insured and collateralized at December 31, 2004.

Cash and equivalents are categorized as follows:

Category 1 – Insured or registered, with securities held by the Commission or its agent in the Commission's name.

Category 2 – Uninsured and unregistered, with securities held by the counterparty's trust department.

Category 3 – Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Commission's name.

	<u>Category</u>			<u>Bank</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Balance</u>
Petty cash	\$ 150	\$ -	\$ -	\$ -
Checking accounts	51,385	-	-	63,079
Savings account	<u>27,400</u>	<u>-</u>	<u>-</u>	<u>27,400</u>
<b>TOTAL</b>	<b>\$ <u>78,935</u></b>	<b>\$ <u>-</u></b>	<b>\$ <u>-</u></b>	<b>\$ <u>90,479</u></b>



## MONTCALM COUNTY HOUSING COMMISSION

### **NOTES TO FINANCIAL STATEMENTS**

December 31, 2004

(Continued)

#### **NOTE B – CASH (Continued)**

##### **STATUTORY AUTHORITY**

Michigan law (Act 196 PA 1997) authorizes the Commission to deposit and invest in one or more of the following:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.
- c. Commercial paper rated at time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in a.
- e. Bankers' acceptance of United States Banks.
- f. Obligations of this State or any of its political subdivisions at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-4 to 80a-64, with the authority to purchase investment vehicles that are legal for direct investment by a public corporation.
- h. Obligation described in a. through g. if purchased through an interlocal agreement under the urban cooperation's act of 1967, 1967 (Ex Sess) PA 7, MCL 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

Michigan law (Section 3, Act 40, PA 1932, as amended) prohibits security in the form of collateral, surety bond, or another form for the deposit of public money.



## MONTCALM COUNTY HOUSING COMMISSION

### NOTES TO FINANCIAL STATEMENTS

December 31, 2004

(Continued)

#### NOTE C - CAPITAL ASSETS

A summary of capital assets as of December 31, 2004 is as follows:

	Balance 1-1-04	Additions	Deletions	Balance 12-31-04
Land and improvements	\$ 256,882	\$ -	\$ -	\$ 256,882
Building and improvements	1,813,710	14,262	-	1,827,972
Equipment	<u>180,719</u>	<u>9,211</u>	<u>-</u>	<u>189,930</u>
	2,251,311	\$ <u>23,473</u>	\$ <u>-</u>	2,274,784
Accumulated depreciation	(1,035,525)	\$ (81,630)	\$ <u>-</u>	(1,117,155)
Net capital assets	\$ <u>1,215,786</u>			\$ <u>1,157,629</u>

Depreciation expense for the year was \$81,630.

#### NOTE D - RISK MANAGEMENT

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission maintains commercial insurance covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Commission. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

#### NOTE E - USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### NOTE F - CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

The Commission is dependent upon the Department of Housing and Urban Development (HUD) to fund its operations through operating subsidies and capital funding grants. Total operating revenues for the year ended December 31, 2004 totaled \$1,273,010 of which \$1,212,726 or 95.3% was from HUD subsidies and grants.

The operations of the project are subject to rules and regulations of HUD. These rules and regulations are subject to change. Such changes may occur with short notice and could create a lack of funding to pay for operational related costs, including the additional administrative burden to comply with the changes.



# MONTCALM COUNTY HOUSING COMMISSION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2004

(Continued)

### NOTE G- PENSION PLAN

The Commission has established a SEP-IRA plan of which the Commission contributes 10% of qualified wages. To be eligible, an employee must have twelve continuous months of service. The Commission contributions to the Plan during the year amounted to \$0.00.

### NOTE H - CHANGES IN LONG-TERM OBLIGATIONS

During the year ended December 31, 2004, the following changes occurred in long-term liabilities.

	Balance <u>1-1-04</u>	<u>Additions</u>	<u>Repayments</u>	Balance <u>12-31-04</u>	Amounts Due Within <u>One Year</u>
Notes Payable	\$ <u>-</u>	\$ <u>5,519</u>	\$ <u>(1,887)</u>	\$ <u>3,632</u>	\$ <u>1,842</u>

### NOTE I - LONG-TERM OBLIGATIONS

Long-term obligations at December 31, 2004 is comprised of the following amounts:

1. Installment note payable secured by computer equipment due in monthly installments of \$189.07 with interest of 14.925%. Matures October 12, 2006 \$ 3,632

The annual requirements to amortize long-term obligations outstanding as of December 31, 2004 are as follows:

<u>Year Ended</u> <u>December 31</u>	<u>Notes Payable</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2005	\$ 1,842	\$ 428	\$ 2,270
2006	<u>1,790</u>	<u>134</u>	<u>1,924</u>
TOTAL	\$ <u>3,632</u>	\$ <u>562</u>	\$ <u>4,194</u>

Interest charged to expenses totaled \$382.



**SUPPLEMENTAL  
INFORMATION**



ANDERSON, TACKMAN  
& COMPANY, P.L.C.  
CERTIFIED PUBLIC ACCOUNTANTS

**MONTICALEM COUNTY HOUSING COMMISSION**

**FINANCIAL DATA SCHEDULE  
Proprietary Fund**

December 31, 2004

Line Item #	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
<b>ASSETS</b>					
<b>CURRENT ASSETS:</b>					
Cash:					
111	Cash - unrestricted	\$ 5,645	\$ 73,290	\$ -	\$ 78,935
100	Total cash	5,645	73,290	-	78,935
Accounts and notes receivables:					
125	Accounts receivable- Miscellaneous	711	-	-	711
126	Accounts receivable-Tenants - Dwelling Rents	10,942	-	-	10,942
126.1	Allowance for doubtful accounts - Dwelling Rents	(8,314)	-	-	(8,314)
120	Total receivables, net of allowances for doubtful accounts	3,339	-	-	3,339
Other current assets:					
142	Prepaid expenses	2,669	2,106	-	4,775
144	Interprogram due from	-	49,830	-	49,830
150	TOTAL CURRENT ASSETS	11,653	125,226	-	136,879

See accompanying notes to financial statements



**ANDERSON, TACKMAN  
& COMPANY, P.L.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

**MONTICALEM COUNTY HOUSING COMMISSION**

**FINANCIAL DATA SCHEDULE  
Proprietary Fund**

December 31, 2004

Line Item #	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
<b>NONCURRENT ASSETS:</b>					
	Fixed assets:				
161	Land	68,650	-	-	68,650
162	Buildings	1,817,466	10,505	-	1,827,971
163	Furniture, equipment & machinery - dwellings	26,791	-	-	26,791
164	Furniture, equipment & machinery - administration	98,890	64,250	-	163,140
165	Leasehold improvements	188,232	-	-	188,232
166	Accumulated depreciation	(1,053,131)	(64,024)	-	(1,117,155)
160	Total fixed assets, net of accumulated depreciation	1,146,898	10,731	-	1,157,629
180	TOTAL NONCURRENT ASSETS	1,146,898	10,731	-	1,157,629
190	TOTAL ASSETS	\$ 1,158,551	\$ 135,957	\$ -	\$ 1,294,508

See accompanying notes to financial statements





ANDERSON, TACKMAN  
& COMPANY, P.L.C.  
CERTIFIED PUBLIC ACCOUNTANTS

**MONTCALM COUNTY HOUSING COMMISSION**

**FINANCIAL DATA SCHEDULE  
Proprietary Fund**

December 31, 2004

Line Item #	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
<b>LIABILITIES AND NET ASSETS</b>					
<b>LIABILITIES:</b>					
<b>CURRENT LIABILITIES</b>					
312	Accounts payable ≤ 90 days	\$ 6,398	\$ 1,915	\$ -	\$ 8,313
321	Accrued wages / payroll taxes payable	4,061	748	-	4,809
322	Accrued compensated absences - current portion	385	769	-	1,154
331	Accounts payable - HUD PHA programs	-	51,975	-	51,975
333	Accounts payable - other government	3,892	-	-	3,892
341	Tenant security deposits	5,723	-	-	5,723
342	Deferred revenues	48	-	-	48
343	Current portion of long-term debt	921	921	-	1,842
345	Other current liabilities	1,888	-	-	1,888
347	Interprogram due to	49,830	-	-	49,830
310	<b>TOTAL CURRENT LIABILITIES</b>	<b>73,146</b>	<b>56,328</b>	<b>-</b>	<b>129,474</b>
351	Long-term debt, net of current maturities	895	895	-	1,790
354	Accrued compensated absences - non current	1,074	528	-	1,602
350	<b>TOTAL NONCURRENT LIABILITIES</b>	<b>1,969</b>	<b>1,423</b>	<b>-</b>	<b>3,392</b>
300	<b>TOTAL LIABILITIES</b>	<b>75,115</b>	<b>57,751</b>	<b>-</b>	<b>132,866</b>

See accompanying notes to financial statements



ANDERSON, TACKMAN  
& COMPANY, P.L.C.  
CERTIFIED PUBLIC ACCOUNTANTS

**MONTCALM COUNTY HOUSING COMMISSION**

**FINANCIAL DATA SCHEDULE  
Proprietary Fund**

December 31, 2004

Line Item #	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
<b><u>NET ASSETS</u></b>					
508.1	Investment in capital assets, net of related debt	1,145,082	8,915	-	1,153,997
512.1	Unrestricted net assets	(61,646)	69,291	-	7,645
513	TOTAL NET ASSETS	1,083,436	78,206	-	1,161,642
600	TOTAL LIABILITIES AND NET ASSETS	\$ 1,158,551	\$ 135,957	\$ -	\$ 1,294,508

See accompanying notes to financial statements



**MONTCALM COUNTY HOUSING COMMISSION**

**FINANCIAL DATA SCHEDULE  
Proprietary Fund**

For the Year Ended December 31, 2004

<u>Line Item #</u>	<u>Account Description</u>	<u>Low Rent Public Housing</u>	<u>Housing Choice Vouchers</u>	<u>Public Housing Capital Fund Program</u>	<u>TOTAL</u>
<b><u>REVENUES</u></b>					
703	Net tenant rental revenue	\$ 56,927	\$ -	\$ -	\$ 56,927
704	Tenant revenue - other	1,571	-	-	1,571
705	Total tenant revenue	58,498	-	-	58,498
706	HUD PHA grants	70,042	1,084,375	58,309	1,212,726
711	Investment income - unrestricted	-	361	-	361
714	Fraud recovery	-	98	-	98
715	Other revenue	1,688	-	-	1,688
700	TOTAL REVENUE	130,228	1,084,834	58,309	1,273,371
<b><u>EXPENSES</u></b>					
Administrative:					
911	Administrative salaries	17,085	66,095	-	83,180
912	Auditing fees	7,896	8,649	-	16,545
913	Outside management fees	5,005	5,005	-	10,010
914	Compensated absences	888	1,006	-	1,894
915	Employee benefit contributions- administrative	9,108	37,404	-	46,512
916	Other operating- administrative	25,127	48,865	-	73,992
	Total Administrative	65,109	167,024	-	232,133

See accompanying notes to financial statements



ANDERSON, TACKMAN  
& COMPANY, P.L.C.  
CERTIFIED PUBLIC ACCOUNTANTS

**MONTCALM COUNTY HOUSING COMMISSION**

**FINANCIAL DATA SCHEDULE  
Proprietary Fund**

For the Year Ended December 31, 2004

Line Item #	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
Tenant services:					
924	Tenant services - other	927	-	-	927
Utilities:					
931	Water	4,629	-	-	4,629
932	Electricity	5,459	-	-	5,459
933	Gas	4,865	-	-	4,865
	Total Utilities	14,953	-	-	14,953
Maintenance:					
941	Ordinary maintenance and operations - labor	40,551	-	-	40,551
942	Ordinary maintenance and operations - materials & other	18,054	-	-	18,054
943	Ordinary maintenance and operations - contract costs	29,272	-	-	29,272
945	Employee benefit contributions- ordinary maintenance	20,879	-	-	20,879
	Total Maintenance	108,756	-	-	108,756

See accompanying notes to financial statements



**ANDERSON, TACKMAN  
& COMPANY, P.L.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

**MONTCALM COUNTY HOUSING COMMISSION**

**FINANCIAL DATA SCHEDULE  
Proprietary Fund**

For the Year Ended December 31, 2004

Line Item #	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
General expenses:					
961	Insurance premiums	12,253	-	-	12,253
962	Other general expenses	-	227	-	227
963	Payments in lieu of taxes	3,892	-	-	3,892
964	Bad debt - tenant rents	5,030	-	-	5,030
967	Interest expense	191	191	-	382
	Total General Expenses	21,366	418	-	21,784
969	TOTAL OPERATING EXPENSES	211,111	167,442	-	378,553
970	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	(80,883)	917,392	58,309	894,818
971	Extraordinary maintenance	2,400	-	-	2,400
972	Casualty losses - non capitalized	690	-	-	690
973	Housing assistance payments	-	947,429	-	947,429
974	Depreciation expense	77,520	4,110	-	81,630
900	TOTAL EXPENSES	291,721	1,118,981	-	1,410,702

See accompanying notes to financial statements



ANDERSON, TACKMAN  
& COMPANY, P.L.C.  
CERTIFIED PUBLIC ACCOUNTANTS

**MONTCALM COUNTY HOUSING COMMISSION**

**FINANCIAL DATA SCHEDULE  
Proprietary Fund**

For the Year Ended December 31, 2004

Line Item #	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
Other financing sources (uses)					
1001	Operating transfers in	58,309	-	-	58,309
1002	Operating transfers out	-	-	(58,309)	(58,309)
1010	Total other financing sources (uses)	58,309	-	(58,309)	-
1000 EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSES					
		\$ (103,184)	\$ (34,147)	\$ -	\$ (137,331)
MEMO account information					
1102	Debt principal payments	\$ 943	\$ 943	\$ -	\$ 1,886
1103	Beginning equity	\$ 1,185,729	\$ 112,353	\$ -	\$ 1,298,082
1104	Prior period adjustments, equity transfers	\$ 891	\$ -	\$ -	\$ 891
1113	Maximum Annual Contributions Commitment (Per ACC)	\$ -	\$ 1,126,647	\$ -	\$ 1,126,647
1115	Contingency Reserve, ACC Program Reserve	\$ -	\$ 9,703	\$ -	\$ 9,703
1116	Total Annual Contributions Available	\$ -	\$ 1,136,350	\$ -	\$ 1,136,350
1120	Unit months available	480	3,816	-	4,296
1121	Number of unit months leased	447	3,378	-	3,825

See accompanying notes to financial statements



**MONTCALM COUNTY HOUSING COMMISSION**

**FEDERAL AUDIT REPORTS**

For the Year Ended December 31, 2004

MONTCALM COUNTY HOUSING COMMISSION

TABLE OF CONTENTS

	<u>Page</u>
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With "Government Auditing Standards" .....	32
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133.....	33-34
Schedule of Expenditures of Federal Awards .....	35
Notes to Schedule of Expenditures of Federal Awards .....	36
Schedule of Findings and Questioned Costs .....	37-39





**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
"GOVERNMENT AUDITING STANDARDS"**

Board of Commissioners  
Montcalm County Housing Commission  
Howard City, Michigan

We have audited the financial statements of the business-type activities of the Montcalm County Housing Commission, as of and for the year ended December 31, 2004, which collectively comprise the Montcalm County Housing Commission's basic financial statements and have issued our report thereon dated August 11, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Auditing Standards", issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Montcalm County Housing Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Montcalm County Housing Commission, in a separate letter dated August 11, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Montcalm County Housing Commission's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under "Government Auditing Standards". However, we noted certain immaterial instances of noncompliance that we have reported to management of the Montcalm County Housing Commission in a separate letter dated August 11, 2005.

This report is intended solely for the information of the Board of Commissioners, management and the Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than those specified parties.

*Anderson Tackman & Co. P.C.*

ANDERSON, TACKMAN & COMPANY, P.L.C.  
Certified Public Accountants  
Iron Mountain, Michigan

August 11, 2005



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH  
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Commissioners  
Montcalm County Housing Commission  
Montcalm County, Michigan

Compliance

We have audited the compliance of Montcalm County Housing Commission with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" that are applicable to each of its major federal programs for the year ended December 31, 2004. Montcalm County Housing Commission's major federal programs are identified in the summary of Auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Montcalm County Housing Commission's management. Our responsibility is to express an opinion on Montcalm County Housing Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in "Government Auditing Standards", issued by the Comptroller General of the United States; and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations". Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Montcalm County Housing Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Montcalm County Housing Commission's compliance with those requirements.

As described in item B in the accompanying schedule of findings and questioned costs, Montcalm County Housing Commission did not comply with requirements that are applicable to its Section 8 Rental Voucher Program. Compliance with such requirements is necessary, in our opinion, for Montcalm County Housing Commission to comply with requirements applicable to those programs.

In our opinion, because of the effects of the noncompliance described in the preceding paragraph, Montcalm County Housing Commission did not comply, in all material respects, with the requirements referred to above that are applicable to the Section 8 Rental Voucher Program. Also, in our opinion, Montcalm County Housing Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its other major federal programs for the year ended December 31, 2004.



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH  
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133  
(Continued)**

Internal Control Over Compliance

The management of Montcalm County Housing Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Montcalm County Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Montcalm County Housing Commission's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item B.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable conditions described above are material weaknesses.

This report is intended solely for the information of the Board of Commissioners, management, the U.S. Department of Housing and Urban Development, and other Federal audit agencies.

*Anderson Tackman & Co., P.L.C.*

ANDERSON, TACKMAN & COMPANY, PLC  
Certified Public Accountants

Iron Mountain, Michigan  
August 11, 2005

ANDERSON, TACKMAN  
& COMPANY, P.L.C.  
CERTIFIED PUBLIC ACCOUNTANTS



**MONTCALM COUNTY HOUSING COMMISSION**

For the Year Ended December 31, 2004

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

<u>Federal Grantor/Pass Through Grantor</u>	<u>Federal CFDA Number</u>	<u>Award Amount</u>	<u>Expended as of 12-31-03</u>	<u>12-31-04 Federal Expenditures</u>
Operating Subsidy	14.850	\$ <u>70,042</u>	\$ <u>-</u>	\$ <u>70,042</u>
Section 8 Rental Voucher	14.871	\$ <u>1,084,375</u>	\$ <u>-</u>	\$ <u>1,084,375</u>
Capital Funding	14.872			
501-03		\$ 48,141	\$ -	\$ 48,141
502-03		<u>10,168</u>	<u>-</u>	<u>10,168</u>
		\$ <u>58,309</u>	\$ <u>-</u>	\$ <u>58,309</u>
Total Department of Housing and Urban Development				\$ <u>1,212,726</u>
TOTAL FEDERAL EXPENDITURES				\$ <u>1,212,726</u>

See accompanying notes to the schedule of expenditures of federal awards.



**MONTCALM COUNTY HOUSING COMMISSION**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the Year Ended December 31, 2004

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Montcalm County Housing Commission and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**NOTE B - COST REPORTS**

Management has reported the expenditures in the Schedule of Expenditures of Federal Awards equal to those amounts reported in the modernization cost reports.



## MONTCALM COUNTY HOUSING COMMISSION

### **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For the Year Ended December 31, 2004

#### **A. SUMMARY OF AUDITORS' RESULTS**

1. The auditors' report expresses an unqualified opinion of the general purpose financial statements of the Montcalm County Housing Commission.
2. There were no reportable conditions relating to the audit of the general purpose financial statements.
3. There were no instances of noncompliance material to the general purpose financial statements of the Montcalm County Housing Commission.
4. There were reportable conditions relating to the audit of the major federal award programs as reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for the Montcalm County Housing Commission expresses a qualified opinion.
6. There were audit findings relative to the major federal award programs for the Montcalm County Housing Commission.
7. The programs tested as major programs included:
  - A. Housing Choice Vouchers – CFDA 14.871
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Montcalm County Housing Commission was not determined to be a low-risk auditee.

#### **B. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT**

##### **DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

1. Section 8 Rental Voucher Program - CFDA No. 14.871; Grant Period - Year ended December 31, 2004.

##### **Reportable Condition:**

Montcalm County Housing Commission did not perform the following compliance requirements of the grant:

- a. Eligibility – Family income and composition was not reexamined at least annually.



**MONTCALM COUNTY HOUSING COMMISSION**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For the Year Ended December 31, 2004

(Continued)

**B. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT – (Continued)**

**DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (Continued)**

- b. Special Reporting – Required HUD form 50058 was not completed and maintained in tenant files as required.
- c. Waiting Lists – There was no documentation that new tenants were selected from a waiting list.
- d. Rent Reasonableness – There was no evidence that rent reasonableness procedures were followed for tenants.
- e. Utility Allowance – An up to date utility allowance schedule was not prepared and utilized.
- f. Housing Quality Standard (HQS) Inspections– The Montcalm County Housing Commission did not perform HQS inspections as required.

**Recommendations:**

Montcalm County Housing Commission should formalize a system for complying with all the specific requirements of the Section 8 Rental Voucher Program.

**Statement of Condition:**

Montcalm County Housing Commission did not establish a system to monitor its compliance with the specific requirements of the Section 8 Rental Voucher Program.

**Criteria:**

As a recipient of federal funds, Montcalm County Housing Commission is required to comply with the grant requirements of the Section 8 Rental Voucher Program.

**Effect of Condition:**

Expenditures under the program may be disallowed.

**Cause of Condition:**

Montcalm County Housing Commission' oversight of reviewing program requirements.

**Response:**

We concur with the auditors' recommendation. A system for monitoring and verifying compliance with the program requirements will be performed.



## MONTCALM COUNTY HOUSING COMMISSION

### **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For the Year Ended December 31, 2004

(Continued)

#### C. PRIOR FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

##### DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

##### 1. Section 8 Rental Voucher Program - CFDA No. 14.871; Grant Period - Year ended December 31, 2003.

###### Reportable Conditions:

Montcalm County Housing Commission did not perform the following compliance requirements of the grant:

- a. Eligibility – Family income and composition was not reexamined at least annually.
- b. Special Reporting – Required HUD form 50058 was not completed and maintained in tenant files as required.
- c. Waiting Lists – There was no documentation that new tenants were selected from a waiting list.
- d. Rent Reasonableness – There was no evidence that rent reasonableness procedures were followed for tenants.
- e. Utility Allowance – An up to date utility allowance schedule was not prepared and utilized.
- f. Housing Quality Standard (HQS) Inspections– The Montcalm County Housing Commission did not perform HQS inspections as required.

###### Recommendations:

Montcalm County Housing Commission should formalize a system for complying with all the specific requirements of the Section 8 Rental Voucher Program.

###### Statement of Condition:

Montcalm County Housing Commission did not establish a system to monitor its compliance with the specific requirements of the Section 8 Rental Voucher Program.

###### Criteria:

As a recipient of federal funds, Montcalm County Housing Commission is required to comply with the grant requirements of the Section 8 Rental Voucher Program.

###### Effect of Condition:

Expenditures under the program may be disallowed.

###### Cause of Condition:

Montcalm County Housing Commission' oversight of reviewing program requirements.

###### Status of Correction:

As of August 11, 2005 there were no corrective actions taken to correct the prior year findings. The client had a management review done by HUD in July of 2005 and is currently working on a corrective action plan relative to the findings from December 31, 2003 and 2004.







**ANDERSON, TACKMAN & COMPANY, P.L.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

*A Regional Firm with Offices in Michigan and Wisconsin*

Principals - Iron Mountain:  
L. Robert Schaut, CPA  
David J. Johnson, CPA  
Shane M. Ellison, CPA

Member of:  
Private Companies Practice Section  
American Institute of Certified  
Public Accountants

August 11, 2005

Board of Commissioners  
Montcalm County Housing Commission  
Howard City, Michigan

Dear Members of the Board:

In planning and performing our audit of the financial statements of the Montcalm County Housing Commission for the year ended December 31, 2004, we considered the entities internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

During our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The following summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated August 11, 2005, on the financial statements of the Montcalm County Housing Commission.

1. During the review of cash and investments, it was noted that the Commission did not have depository agreements in place with all the banks it does business with.

Recommendation

The Commission should have policies and procedures in place so as to require each bank it does business with to sign a depository agreement with the Commission. The ACC contract with HUD states that the Commission is required to have depository agreements signed by all financial institutions it does business with. The depository agreement states that the financial institution will insure any of the Commission's funds that exceed \$100,000.

2. During the review of accounts receivable it was noted that the Commission's tenant accounts receivable had increased from \$6,499 to \$10,942 or 68%.

Recommendation

The Commission should have policies and procedures in place so as review it tenant accounts receivable on a monthly basis. It was very evident that tenant receivables are not being monitored for delinquent accounts. Once a tenant becomes two months delinquent, the Commission should start making contact with the tenant. Once the tenant becomes three months delinquent, then the Commission should start eviction proceedings. It is imperative that the Commission monitor its tenant receivable accounts so as to avoid severely

delinquent accounts of which most likely will become uncollectible over time. Accounts delinquent over three months had gone from \$3,284 at December 31, 2003 to \$8,314 at December 31, 2004 or 153% increase. Procedures must be in place to monitor tenant accounts receivable and procedures to collect or evict.

3. During the audit it was noted that all of the Commission's original invoices and supporting documentation was sent to its fee accountant on a monthly basis.

Recommendation

The Commission should not be sending original invoices and financial related documentation to its fee accountant. Copies of all financial records should be made and sent to the fee accountant with all originals being kept at the Commission. The Commission still maintains responsibility for all of its financial records, thus the Commission should keep all original documents on-site at the Commission.

4. During the review of employee records it was noted that employee timesheets were not signed-off by the Executive Director.

Recommendation

The Commission should have policies and procedures in place that requires the Executive Director to sign-off on all employee timesheets. The Executive Director should be reviewing and authorizing each employee's timesheet each payroll period. An employee's timesheet should always be reviewed and authorized by a responsible individual.

5. During the review of disbursements it was noted that invoices were not cancelled upon payment.

Recommendation

The Commission should have policies and procedures in place that requires it to effectively cancel its invoices once they are paid. This could be done by either writing "Paid" or stamping "Paid" on each invoice along with the check number and date.

6. During the audit and review of payroll and related benefits, it was noted that the Commission had approved a retirement SEP-IRA Plan of 10% of qualified wages to all employees. It was noted that the 10% amount was not sent to the Plan on the employees behalf, rather an additional check for the 10% was made out to each employee individually.

Recommendation

The Commission should not be providing the 10% SEP-IRA amounts to employees directly. This in all actuality is additional compensation to each employee which is prohibited by HUD. The Commission should provide the 10% contribution to a qualified plan with a qualified company of whom will administer the plan on behalf of the Commission. The contributions should be paid directly to the plan not the employees.

7. During the audit and review of the financial records of the Commission, it was noted that the Commission's reserves are at an all time low. Unrestricted net assets of the Commission were at \$7,645 at December 31, 2004 compared to \$82,296 at December 31, 2003. It was also noted that the amount the low rent program owes the section 8 program increased from \$49,830 at December 31, 2004 to \$75,060 at July 31, 2005.

Recommendation

The Commission should take every step to control its spending for unnecessary items. The Commission needs to take this situation very seriously due to the financial position it is in currently. Every expense needs to be evaluated prior to payment or incurring the cost. Without intervention and a plan to cut expenses and to monitor tenant rents, the Commission could find itself in a position of not being able to continue. Congress and HUD has made it very clear that there will be no bale-outs or additional funding for housing commissions. The Commission needs to put a plan in place so as to pull itself out of this position.

We thank you for the opportunity to be of service. Do not hesitate to contact us if you have any questions. I found your staff to be very cooperative and a pleasure to work with.

Very truly yours,

ANDERSON, TACKMAN & COMPANY, PLC

Shane M. Ellison, CPA  
Principal